

## Memorandum

*Flex your power.  
Be energy efficient.*

To: KELLY TAKIGAWA  
Chief (Interim)  
Division of Procurement and Contracts  
**ORIGINAL SIGNED BY:**

Date: September 2, 2010

File: P1400-2845

From: CARLOS M. AGUILA  
Chief, External Audits  
Architectural and Engineering, Construction, Proposition 1B Projects  
Audits and Investigations

Subject: Postaward Audit – MAP Associates, Inc., dba Northstar Engineering

Attached is Audits and Investigation's postaward audit report of Northstar Engineering's (Consultant) proposed costs under Agreement number 59A0685. The results were communicated to the Consultant and its comments have been considered.

Please provide our office with a corrective action plan within 90 days of the date of this report. The corrective action plan should address the resolution of all audit findings contained in the Findings and Recommendations Section of this audit report. In addition, please provide us confirmation that dollar adjustments have been made to account for the differences between proposed and audited costs for amounts paid to the contractor during the contract period.

If you have any additional questions or need additional information, please call Linda Laubinger, Audit Manager, at (916) 323-7957, or me at (916) 323-7911.

### Attachment

c: Zoe Bayar, Assistant Division Chief, A&E, Division of Procurement and Contracts  
Lam Nguyen, Chief, Office of Special Funded Projects, Division of Structure Design  
Liz Salinas, A&E Branch Chief, Division of Procurements and Contracts  
Ray Shah, A&E Coordinator, Division of Procurement and Contracts  
James Accinelli, Department Contract Manager, Engineering Services/Structure Design  
Linda Laubinger, Audit Manager, Audits and Investigations

<b>P1400-2845</b>
<b>MAP Associates, Inc. dba Northstar Engineering Postaward Audit</b>
<b>September 2010</b>

**Carlos M. Aguila**

**Chief, External Audits**

**Architectural and Engineering, Construction, Proposition 1B Projects**

**Audits and Investigations**

**California Department of Transportation**

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### **ATTACHMENT**

## AUDIT REPORT

### **Objectives, Scope, and Methodology**

We have audited Northstar Engineering's (Consultant) proposed costs under Agreement No. 59A0685 (Agreement) with the California Department of Transportation (Department) to:

- Determine whether the Agreement includes the required fiscal provisions.
- Assess whether the financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable costs for billing purposes.
- Determine whether the proposed costs are reasonable in relation to actual historical costs and estimating procedures.

This audit was performed to assist the Department in complying with 40 U.S.C. §§541-544 (Chapter 11), P.L. 92-582, also known as the Brooks Act, to determine a fair and reasonable price for the services to be provided.

The Consultant is responsible for the fair presentation of the proposed costs, ensuring compliance with Agreement provisions and State and federal regulations, and the adequacy of its financial management system to accumulate and segregate reasonable, allocable, and allowable costs.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the Consultant. Therefore, we did not audit and are not expressing an opinion on Consultant's financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and the records selected. An audit also includes assessing the accounting principles used and significant estimates made by the Consultant, as well as evaluating the overall presentation.

Under the terms of the Agreement, the Consultant shall provide professional and technical project development services, design services, contract documents, and construction support services for the design of specialized wastewater systems for various transportation related structures for the Department.

## AUDIT REPORT

### **Objectives, Scope, and Methodology (Continued)**

The total amount of the Agreement shall not exceed \$550,000. Reimbursement is to be made at specified hourly rates of compensation to the following consultants:

Northstar Engineering (Prime)  
Advanced Onsite Solutions, Inc.\*  
Lescure Engineers, Inc.\*  
Arc-Sine Engineering\*  
Curry Group, Inc. (CGI)\*  
Thomas H. Phelps ASLA\*

\*Audit waived.

The scope of the audit was limited to financial and compliance activities related to the above referenced Agreement. The audit consisted of verifying the proposed costs, an assessment of the accounting principles used, and significant estimates made by the Consultant; as well as, an evaluation of compliance with 48 Code of Federal Regulations (CFR), Chapter 1, Part 31, and 49 CFR, Part 18. A full scope audit was performed on the Consultant. We reviewed the Agreement, interviewed applicable personnel, and performed limited tests on the Consultant's financial management system and proposed costs as of July 1, 2010. Financial management system and cost proposal changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We did not audit or examine the proposed indirect cost rates since a postaward audit is significantly less in scope than an incurred cost audit or examination. We reviewed the proposed indirect cost rates for the purpose of accepting contract progress billings.

Due to inherent limitations in any financial management system, misstatements caused by error or fraud may occur and not be detected. Also, projections of any audit of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or the degree of compliance with the policies and procedures may deteriorate.

### **Conclusion**

Based on our audit work, we found the required fiscal provisions are included in the Agreement. In addition, the Consultant's proposed costs are reasonable in relation to actual historical costs and estimating procedures and the Consultant's financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable project costs, except as noted in the Findings and Recommendation section of this report.

## AUDIT REPORT

**Views of  
Responsible  
Officials  
Views of  
Responsible  
Officials  
(Continued)**

The results of the audit were communicated to Mark Adams, President, and Nick Weigel, Assistant Project Manager, Northstar Engineering; James Accineli, Department Contract Manager; and Ray Shah, Department A&E Coordinator, on July 12, 2010. The findings take into consideration information provided by the Consultant as of July 1, 2010. The Consultant concurred with all findings and recommendations.

This report is intended solely for the information of the Department and the Federal Highway Administration. However, this report is a matter of public record and will be included on the "Reporting Transparency in Government" website.

Please forward a copy of the revised cost proposal to Audits and Investigations. If you have any questions, please contact Linda Laubinger, Audit Manager, at (916) 323-7957.

### **ORIGINAL SIGNED BY:**

**CARLOS M. AGUILA**  
Chief, External Audits  
Architectural and Engineering, Construction, Proposition 1B Projects  
Audits and Investigations

**September 2, 2010**

## **AUDIT REPORT**

### **FINDINGS AND RECOMMENDATIONS**

**Finding 1 -  
Inconsistency with  
Administrative Time**

The Consultant proposed an Administrative Assistant on the cost proposal. This is inconsistent with their past practice of including "administrative time" in the indirect cost pool. All Fiscal Year 2008 administrative expenses were included in the indirect cost pool and included in the indirect cost rate calculation. The subsequent charging of administrative time as a direct labor cost on this contract results in double billing rates.

**Recommendation**

We recommend that the Department Contract Manager request the Consultant to remove the Administrative Assistant from the cost proposal and submit a revised cost proposal.

**Response**

The Consultant concurred with the finding.

**Finding 2 -  
Inadequate Survey  
Crew Salary Ranges**

The proposed salary ranges for the Survey Crew are inadequate. It could not be determined if the ranges are reasonable because specific classifications with their respective pay rate ranges were not provided in the cost proposal. Additionally, the listing of a classification on the cost proposal does not provide a basis for validating charges reflected on the related invoices.

**Recommendation**

We recommend that the Department Contract Manager request the Consultant provide more specific information for the Survey Crew on the revised cost proposal. Employee names, related job classifications and respective pay/billing rates would be preferred, but the specific classifications and related pay ranges should be required as a minimum. If classifications are used in the revised proposal, the Department Contract Manager should request supporting documentation, such as payroll records, from the Consultant as individuals are assigned to a specific task orders. If a task order is issued in a location where prevailing wages would exceed the hourly rate of the assigned employee, the Department Contract Manager should ensure the task order cost proposal is based on prevailing wage rates.

**Response**

The Consultant concurred with the finding.

## AUDIT REPORT

<b>Finding 3 - Understated Indirect Cost Rate</b>	The Consultant proposed an indirect cost rate of 172.29 percent for the contract. This rate is understated and our evaluated indirect cost rate is 182.37 percent.
<b>Recommendation</b>	We recommend that the Department Contract Manager request the Consultant to revise the cost proposal using the evaluated indirect cost rate of 182.37 percent to recompute the billing rates.
<b>Response</b>	The Consultant concurred with the finding.
<b>Finding 4 - Insufficient Internal Control-Timekeeping Policy</b>	The Consultant's internal control is insufficient in terms of a written timekeeping policy. Most notably, there are no supervisory approvals on the timecards. The software utilized by the Consultant does provide for an electronic approval by the supervisor; however this control has not been implemented.
<b>Recommendation</b>	We recommend that the Department Contract Manager require the Consultant implement policies and procedures which require supervisory approval of timecards.
<b>Response</b>	The Consultant concurred with the finding.
<b>Audit Team</b>	Carlos M. Aguila, Chief, External Audits Linda Laubinger, Audit Supervisor Rodney Leggett, Auditor